

**REPORT OF THE AUDIT OF THE
MAGOFFIN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2013**



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
MAGOFFIN COUNTY FISCAL COURT

June 30, 2013

The Auditor of Public Accounts has completed the audit of the Magoffin County Fiscal Court for fiscal year ended June 30, 2013.

We have issued an unqualified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Cash Balances and Cash Equivalents - Regulatory Basis of Magoffin County, Kentucky.

Financial Condition:

The Magoffin County Fiscal Court had total receipts of \$6,919,887, a decrease of \$193,395, disbursements of \$5,985,204, a decrease of \$5,659,735, and a cash and cash equivalents balance of \$4,714,789, an increase of \$934,683 from the prior year.

Report Comments:

- 2013-001 The County Treasurer Did Not Monitor Disbursements Which Caused Total Budgeted Appropriations To Be Overspent
- 2013-002 The Fiscal Court Did Not Amend The County's Budget For Unanticipated Receipts
- 2013-003 The County Treasurer Did Not Present An Annual Settlement To The Fiscal Court Within The Time Period Required By State Law
- 2013-004 The County Treasurer Did Not Monitor Fund Cash Balances Which Caused The 911 Fund To Have A Negative Balance
- 2013-005 The County Did Not Maintain Capital Asset Schedules In Accordance With Regulatory Requirements
- 2013-006 The County's Administrative Code Does Not Address Commuting Mileage Or The Personal Use Of A County Vehicle
- 2013-007 The Fiscal Court Did Not Prepare A Schedule of Expenditures of Federal Awards
- 2013-008 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll
- 2013-009 The Fiscal Court Does Not Have Adequate Controls Over Gravel Inventory
- 2013-010 The Fiscal Court Did Not Follow Proper Procedures For Timesheets
- 2013-011 The Fiscal Court Does Not Have Adequate Controls Over Health Reimbursement Accounts And Flexible Spending Accounts
- 2013-012 The County Did Not Update Insurance Policies For Capital Asset Changes
- 2013-013 The Fiscal Court Does Not Have Adequate Controls Over Notes Receivable

Deposits:

The fiscal court deposits were insured and collateralized by bank securities or bonds.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Charles E. Hardin, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Cash Balances and Cash Equivalents - Regulatory Basis of Magoffin County, Kentucky, for the year ended June 30, 2013, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Note 1, the financial statement is prepared by Magoffin County, Kentucky on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Magoffin County, Kentucky as of June 30, 2013, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash and cash equivalents of 2013 Implementation County, Kentucky as of June 30, 2013, and its cash receipts and disbursements, for the year then ended, in accordance with the financial reporting provisions prescribed or permitted by the Department for Local Government described in Note 1.

Emphasis of Matters

As discussed in Note 1 to the financial statement, in fiscal year 2013, the Magoffin County Fiscal Court adopted new accounting guidance on a regulatory basis. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statement, the Magoffin County Fiscal Court would have included some component entities under accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. However, under the regulatory basis they are no longer required components of the reporting entity. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Magoffin County, Kentucky. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The budgetary comparison schedules have been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

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 Honorable Matthew G. Bevin, Governor
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 Members of the Magoffin County Fiscal Court

Other Matters (Continued)

In our opinion, the budgetary comparison schedules are fairly stated in all material respects in relation to the financial statement. The capital asset schedule has not been subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2016 on our consideration of Magoffin County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discuss the following report comments:

- 2013-001 The County Treasurer Did Not Monitor Disbursements Which Caused Total Budgeted Appropriations To Be Overspent
- 2013-002 The Fiscal Court Did Not Amend The County's Budget For Unanticipated Receipts
- 2013-003 The County Treasurer Did Not Present An Annual Settlement To The Fiscal Court Within The Time Period Required By State Law
- 2013-004 The County Treasurer Did Not Monitor Fund Cash Balances Which Caused The 911 Fund To Have A Negative Balance
- 2013-005 The County Did Not Maintain Capital Asset Schedules In Accordance With Regulatory Requirements
- 2013-006 The County's Administrative Code Does Not Address Commuting Mileage Or The Personal Use Of A County Vehicle
- 2013-007 The Fiscal Court Did Not Prepare A Schedule of Expenditures of Federal Awards
- 2013-008 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll
- 2013-009 The Fiscal Court Does Not Have Adequate Controls Over Gravel Inventory
- 2013-010 The Fiscal Court Did Not Follow Proper Procedures For Timesheets
- 2013-011 The Fiscal Court Does Not Have Adequate Controls Over Health Reimbursement Accounts And Flexible Spending Accounts
- 2013-012 The County Did Not Update Insurance Policies For Capital Asset Changes
- 2013-013 The Fiscal Court Does Not Have Adequate Controls Over Notes Receivable

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

March 18, 2016

MAGOFFIN COUNTY OFFICIALS

For The Year Ended June 30, 2013

Fiscal Court Members:

Charles Hardin	County Judge/Executive
Gary Risner	Magistrate
Pernell Lemaster	Magistrate
Ronnie Lovely	Magistrate

Other Elected Officials:

Gregory D. Allen	County Attorney
Bryan Montgomery	Jailer
Renee Arnett Shepherd	County Clerk
Tonya Ward	Circuit Court Clerk
Carson Montgomery	Sheriff
Jerry Swiney	Property Valuation Administrator
Anthony Jenkins	Coroner

Appointed Personnel:

Mike Wilson	Deputy Judge
Kila Keeton	County Treasurer
Susie Salyer	Finance Officer

MAGOFFIN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES AND CASH EQUIVALENTS - REGULATORY BASIS

For The Year Ended June 30, 2013

MAGOFFIN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES AND CASH EQUIVALENTS - REGULATORY BASIS

For The Year Ended June 30, 2013

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,959,518	\$ 4,217	\$
Excess Fees	83,043		
Licenses and Permits	75,657		
Intergovernmental	466,045	1,915,846	73,915
Charges for Services	10		
Miscellaneous	180,886	14,108	2,694
Interest	1,003	475	9
Total Receipts	<u>2,766,162</u>	<u>1,934,646</u>	<u>76,618</u>
DISBURSEMENTS			
General Government	923,157	1,800	
Protection to Persons and Property	175,389		470,503
General Health and Sanitation			
Social Services	60,700		
Recreation and Culture			
Roads		1,607,259	
Debt Service			
Capital Projects	61,871		
Administration	<u>614,287</u>	<u>290,333</u>	<u>28,764</u>
Total Disbursements	<u>1,835,404</u>	<u>1,899,392</u>	<u>499,267</u>
Excess (Deficiency) of Receipts Over			
Disbursements Before Other			
Adjustments to Cash (Uses)	<u>930,758</u>	<u>35,254</u>	<u>(422,649)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds	200,000		424,000
Transfers To Other Funds	<u>(359,105)</u>		
Total Other Adjustments to Cash (Uses)	<u>(159,105)</u>		<u>424,000</u>
Net Change in Cash Balances and Cash Equivalents	771,653	35,254	1,351
Cash Balances and Cash Equivalents - Beginning (Restated)	<u>1,736,723</u>	<u>401,256</u>	<u>6,229</u>
Cash Balances and Cash Equivalents - Ending	<u>\$ 2,508,376</u>	<u>\$ 436,510</u>	<u>\$ 7,580</u>

The accompanying notes are an integral part of the financial statement.

MAGOFFIN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES AND CASH EQUIVALENTS - REGULATORY BASIS
For The Year Ended June 30, 2013
(Continued)

Budgeted Funds				
Local Government Economic Assistance Fund	Forestry Fund	Solid Waste Fund	Community Center Sinking Fund	Right of Way Use Fund
\$ 1,185,756	\$ 2,463	\$ 100,604	\$	\$
		355,844		
100				
11,535		17,736		
591		87		9
1,197,982	2,463	474,271		9
39,631		358,592		
135,622	2,957			
10,071				
113,147				
125,358				
297,186				
		26,231	9,075	
53,684	43	26,496		
774,699	3,000	411,319	9,075	
423,283	(537)	62,952	(9,075)	9
	20	19,000	11,085	
(368,871)				
(368,871)	20	19,000	11,085	
54,412	(517)	81,952	2,010	9
1,181,345	532	173,546	9	17,821
\$ 1,235,757	\$ 15	\$ 255,498	\$ 2,019	\$ 17,830

The accompanying notes are an integral part of the financial statement.

MAGOFFIN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES AND CASH EQUIVALENTS - REGULATORY BASIS
For The Year Ended June 30, 2013
(Continued)

	Budgeted Funds		
	Escrow For Clear River Fund	911 Fund	Reserve Fund
RECEIPTS			
Taxes	\$	\$ 233,354	\$
Excess Fees			
Licenses and Permits			
Intergovernmental			
Charges for Services			
Miscellaneous		60	
Interest		9	
Total Receipts		233,423	
DISBURSEMENTS			
General Government			
Protection to Persons and Property		242,057	
General Health and Sanitation			
Social Services			
Recreation and Culture			
Roads			
Debt Service			
Capital Projects			
Administration		75,328	
Total Disbursements		317,385	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(83,962)	
Other Adjustments to Cash (Uses)			
Transfers From Other Funds		73,871	
Transfers To Other Funds			
Total Other Adjustments to Cash (Uses)		73,871	
Net Change in Cash Balances and Cash Equivalents		(10,091)	
Cash Balances and Cash Equivalents - Beginning (Restated)	250,000	8,900	222
Cash Balances and Cash Equivalents - Ending	\$ 250,000	\$ (1,191)	\$ 222

The accompanying notes are an integral part of the financial statement.

MAGOFFIN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES AND CASH EQUIVALENTS - REGULATORY BASIS
For The Year Ended June 30, 2013
(Continued)

Unbudgeted Funds	
Magoffin County	
Public Properties	
Corporation	
Justice Center	
Fund	Total
	Funds
\$	\$ 3,485,912
	83,043
	75,657
234,313	3,045,963
	110
	227,019
	2,183
<u>234,313</u>	<u>6,919,887</u>
	1,323,180
	1,026,528
	10,071
	173,847
	125,358
	1,904,445
232,813	268,119
	61,871
<u>2,850</u>	<u>1,091,785</u>
<u>235,663</u>	<u>5,985,204</u>
<u>(1,350)</u>	<u>934,683</u>
	727,976
	<u>(727,976)</u>
(1,350)	934,683
3,523	3,780,106
<u>\$ 2,173</u>	<u>\$ 4,714,789</u>

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2013

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Magoffin County includes all budgeted and unbudgeted funds under the control of the Magoffin County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation created under the provisions of KRS 58.180 to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

The following entity: Magoffin County Public Properties Corporation would have been included in the reporting entity under accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. However under the regulatory basis they are no longer are required components of the reporting entity.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of cash and cash equivalents and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Forestry Fund - The primary purpose of this fund is to account for collections and disbursements of taxes relating to fire protection.

Solid Waste Fund - The primary purpose of this fund is to account for solid waste and recycling disbursements. The primary sources of receipts for this fund are franchise fees, state grants, and recycling receipts.

Community Center Sinking Fund - The primary purpose of this fund is to account for debt service requirements of the First Mortgage Revenue Bonds, Series 1995.

Right of Way Use Fund - The primary purpose of this fund is to account for funds collected from private corporations in accordance with terms of a signed contract for the purpose of repairing county right of ways in the event damage is caused by the private corporations.

Escrow for Clear River Fund - The primary purpose of this fund is to account for funds placed in escrow by a private corporation in the event damage is caused to a certain county road when transporting coal.

911 Fund - The primary purpose of this fund is to account for dispatch expenses of the county. The primary source of receipts for this fund is the 911 telephone surcharge.

Reserve Fund - The primary purpose of this fund is to account for debt service requirements for bond issues.

Unbudgeted Funds

The fiscal court reports the following unbudgeted fund:

Magoffin County Public Properties Corporation Justice Center Fund - The purpose of this fund is to account for debt service requirements of the First Mortgage Refunding Revenue Bonds, Series 2012.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Magoffin County Public Properties Corporation Justice Center Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Magoffin County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Magoffin County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Magoffin County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other adjustments to cash.

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2013, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2013.

	General Fund	LGEA Fund	Total Transfers In
General Fund	\$	\$ 200,000	\$ 200,000
Jail Fund	329,000	95,000	424,000
Forestry Fund	20		20
Solid Waste Fund	19,000		19,000
Sinking Fund	11,085		11,085
911 Fund		73,871	73,871
Total Transfers Out	<u>\$ 359,105</u>	<u>\$ 368,871</u>	<u>\$ 727,976</u>

Reason for transfers:

To move resources from and to the General Fund and other funds, for budgetary purposes, to the funds that will expend them.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 4. Notes Receivable

In August 2008, the Magoffin County Fiscal Court loaned \$20,000 to the Magoffin County Water District. The funds were used to install a water line extension to a family that was still carrying water from other sources to the dwelling. The \$20,000 notes receivable remained outstanding as of June 30, 2013.

Note 5. Long-Term Debt

A. First Mortgage Revenue Bond, Series 1995

In June 1995, the fiscal court entered into an agreement with Farmers Home Administration to borrow \$140,000 at 5% interest for the completion of the Magoffin County Community Center Project. The county will pay semiannual installments due on July 1 and January 1 of each year in accordance with a schedule to complete the contract. The principle balance of the agreement was \$80,700 as of June 30, 2013. Future lease principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2014	\$ 5,100	\$ 4,035
2015	5,300	3,780
2016	5,600	3,515
2017	5,900	3,235
2018-2022	34,100	11,450
2023-2025	24,700	2,500
Totals	<u>\$ 80,700</u>	<u>\$ 28,515</u>

B. Magoffin County Public Properties Corporation-Justice Center First Mortgage Refunding Revenue Bonds

In March 2012, the Public Properties Corporation, a component unit of the Magoffin County Fiscal Court, issued \$5,070,000 in First Mortgage Refunding Revenue Bonds for the payment of debt for the construction of the Justice Center. Semiannual principal and interest payments are required in May and November of each year beginning May 2012.

The Public Properties Corporation is acting as an agent for the Administrative Office of the Courts (AOC) in order to manage and maintain the Magoffin County Justice Center. The Public Properties Corporation expects rentals for use of the Magoffin County Justice Center to be in the full amount of the principal and interest requirement of the bonds.

Under the terms of a lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The Public Properties Corporation is in reliance upon the use allowance payment in order to meet debt service on the bonds.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 5. Long-term Debt (Continued)

B. Magoffin County Public Properties Corporation-Justice Center First Mortgage Refunding Revenue Bonds (Continued)

The AOC with the execution of the lease expressed its intention to continue to pay the full allowance payment. However the lease does not obligate the AOC to do so.

As of June 30, 2013 the principal balance on these bonds was \$4,950,000. Future principal and interest requirements are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 460,000	\$ 111,613
2015	460,000	107,012
2016	465,000	97,812
2017	475,000	88,512
2017-2021	2,535,000	283,638
2022-2023	<u>555,000</u>	<u>16,650</u>
Totals	<u>\$ 4,950,000</u>	<u>\$ 705,237</u>

C. Kentucky Infrastructure Authority Loan

The fiscal court entered into a loan agreement with Kentucky Infrastructure Authority, the purpose of which was to match funds required for the Appalachian Regional Commission grant received for the landfill construction. The total amount approved was \$300,000. This loan has an interest rate of 3.8% and repayment began after all funds were drawn down. The county will pay semiannual installments due on June 1 and December 1 of each year in accordance with a schedule to complete the contract. The principal balance of the agreement was \$37,736 as of June 30, 2013. Future lease principal and interest requirements are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 24,920	\$ 1,263
2015	<u>12,816</u>	<u>256</u>
Totals	<u>\$ 37,736</u>	<u>\$ 1,519</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 5. Long-term Debt (Continued)

D. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 5,155,500	\$	\$ 124,800	\$ 5,030,700	\$ 465,100
Financing Obligations	61,736		24,000	37,736	24,920
Total Long-term Debt	<u>\$ 5,217,236</u>	<u>\$ 0</u>	<u>\$ 148,800</u>	<u>\$ 5,068,436</u>	<u>\$ 490,020</u>

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 19.55 percent.

The county's contribution for FY 2011 was \$222,370, FY 2012 was \$254,936, and FY 2013 was \$271,116.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 6. Employee Retirement System (Continued)

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2013, Magoffin County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Change in Basis of Accounting and Prior Period Adjustments

A. Magoffin County, Kentucky, has changed its basis of accounting from presenting its financial statements in accordance with the modified cash basis of accounting and relevant Government Accounting Standards Board (GASB) pronouncements to the regulatory basis of accounting as prescribed or permitted by the Department for Local Government and the laws of the Commonwealth of Kentucky. The net effect was a decrease to the beginning balance of the General Fund by \$24,804 and increases to the balance of Jail Fund, Forestry Fund, Right of Way Fund, and Reserve Fund by \$6,229, \$532, \$17,821, and \$222, respectively, on the Statement of Receipts, Disbursements, and Changes in Cash and Cash Equivalents Balance-Regulatory Basis.

B. The beginning cash balances of the General Fund, Road Fund, LGEA Fund, and Solid Waste Fund were increased by \$120, \$3,510, \$340, and \$1,080, respectively, for voided checks.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 9. Health Reimbursement Account and Flexible Spending Account

- A. The fiscal court allows employees to participate in a health reimbursement account for employees who waive health insurance coverage provided by the fiscal court. The fiscal court contributes the value of a single health insurance plan and employees are required to submit adequate documentation for qualified medical expenses to receive reimbursement. Employees forfeit any remaining balance of funds not utilized during the year. During fiscal year 2013, three employees participated in the program, which is administered by the treasurer.
- B. The fiscal court allows employees to participate in a flexible spending account to provide employees an additional health benefit. Employees contribute pre-tax funds through payroll deduction and are required to submit adequate documentation for qualified medical expenses to receive reimbursement. During fiscal year 2013, two employees participated in the program, which is administered by the treasurer.

Note 10. Contingencies

The Magoffin County Fiscal Court has entered into an agreement with a private corporation to grant the corporation the right and authority to transport, haul and transfer coal from its coal mine sites upon and across a particular Magoffin County roadway. In exchange for the use of the county roadway and to help defer any additional maintenance costs that may arise as a consequence of the expected heavier traffic flow from this anticipated transport of coal, the corporation agrees to pay into an escrow account to be maintained by the Magoffin County Fiscal Court an amount of fifty cents per ton of coal hauled not to exceed \$250,000. From each fifty cents per ton of coal hauled across the roadway, the Magoffin County Fiscal Court shall receive five cents per ton to help defray any additional costs of upkeep, repair or maintenance caused by heavier use of such coal transportation. The balance of any and all monies held in the account not otherwise used by the Magoffin County Fiscal court to repair, maintain or upkeep of the roadway shall revert back to the corporation.

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MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2013

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2013

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,448,500	\$ 1,448,500	\$ 1,959,518	\$ 511,018
Excess Fees			83,043	83,043
Licenses and Permits	63,500	63,500	75,657	12,157
Intergovernmental	309,370	328,436	466,045	137,609
Charges for Services			10	10
Miscellaneous	141,000	175,021	180,886	5,865
Interest	300	300	1,003	703
Total Receipts	<u>1,962,670</u>	<u>2,015,757</u>	<u>2,766,162</u>	<u>750,405</u>
DISBURSEMENTS				
General Government	1,015,022	985,914	923,157	62,757
Protection to Persons and Property	134,767	178,974	175,389	3,585
Social Services		60,700	60,700	
Capital Projects	50,000	61,872	61,871	1
Administration	653,909	619,325	614,287	5,038
Total Disbursements	<u>1,853,698</u>	<u>1,906,785</u>	<u>1,835,404</u>	<u>71,381</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>108,972</u>	<u>108,972</u>	<u>930,758</u>	<u>821,786</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			200,000	200,000
Transfers To Other Funds	<u>(312,626)</u>	<u>(312,626)</u>	<u>(359,105)</u>	<u>(46,479)</u>
Total Other Adjustments to Cash (Uses)	<u>(312,626)</u>	<u>(312,626)</u>	<u>(159,105)</u>	<u>153,521</u>
Net Change in Cash and Cash Equivalents	(203,654)	(203,654)	771,653	975,307
Cash and Cash Equivalents Balances - Beginning (Restated)	<u>203,654</u>	<u>203,654</u>	<u>1,736,723</u>	<u>1,533,069</u>
Cash and Cash Equivalents Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,508,376</u>	<u>\$ 2,508,376</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 3,600	\$ 3,600	\$ 4,217	\$ 617
Intergovernmental	1,303,229	1,364,050	1,915,846	551,796
Miscellaneous			14,108	14,108
Interest	175	175	475	300
Total Receipts	<u>1,307,004</u>	<u>1,367,825</u>	<u>1,934,646</u>	<u>566,821</u>
DISBURSEMENTS				
General Government	10,800	1,800	1,800	
Roads	1,004,802	1,075,692	1,607,259	(531,567)
Administration	291,402	290,333	290,333	
Total Disbursements	<u>1,307,004</u>	<u>1,367,825</u>	<u>1,899,392</u>	<u>(531,567)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>35,254</u>	<u>35,254</u>
Net Change in Cash and Cash Equivalents			35,254	35,254
Cash and Cash Equivalents Balances - Beginning			<u>401,256</u>	<u>401,256</u>
Cash and Cash Equivalents Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 436,510</u>	<u>\$ 436,510</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 55,420	\$ 55,420	\$ 73,915	\$ 18,495
Miscellaneous			2,694	2,694
Interest	10	10	9	(1)
Total Receipts	55,430	55,430	76,618	21,188
DISBURSEMENTS				
Protection to Persons and Property	548,653	548,653	470,503	78,150
Administration	35,590	35,590	28,764	6,826
Total Disbursements	584,243	584,243	499,267	84,976
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(528,813)	(528,813)	(422,649)	106,164
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	528,813	528,813	424,000	(104,813)
Total Other Adjustments to Cash (Uses)	528,813	528,813	424,000	(104,813)
Net Change in Cash and Cash Equivalents			1,351	1,351
Cash and Cash Equivalents Balances - Beginning			6,229	6,229
Cash and Cash Equivalents Balances - Ending	\$ 0	\$ 0	\$ 7,580	\$ 7,580

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 920,000	\$ 920,000	\$ 1,185,756	\$ 265,756
Charges For Services	500	500	100	(400)
Miscellaneous Revenue	10,000	10,000	11,535	1,535
Interest	100	100	591	491
Total Receipts	930,600	930,600	1,197,982	267,382
DISBURSEMENTS				
General Government	65,799	39,786	39,631	155
Protection to Persons and Property	78,757	138,166	135,622	2,544
General Health and Sanitation	11,000	10,071	10,071	
Social Services	50,050	108,747	113,147	(4,400)
Recreation and Culture	167,600	125,359	125,358	1
Roads	240,000	258,679	297,186	(38,507)
Administration	64,228	53,684	53,684	
Total Disbursements	\$ 677,434	\$ 734,492	\$ 774,699	\$ (40,207)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	253,166	196,108	423,283	227,175
Other Adjustments to Cash (Uses)				
Transfers From Other Funds				
Transfers To Other Funds	(253,166)	(253,166)	(368,871)	(115,705)
Total Other Adjustments to Cash (Uses)	\$ (253,166)	\$ (253,166)	\$ (368,871)	\$ (115,705)
Net Change in Cash and Cash Equivalents		(57,058)	54,412	111,470
Cash and Cash Equivalents Balances - Beginning		57,058	1,181,345	1,124,287
Cash and Cash Equivalents Balances - Ending	\$ 0	\$ 0	\$ 1,235,757	\$ 1,235,757

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

FORESTRY FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,500	\$ 2,500	\$ 2,463	\$ (37)
Total Receipts	2,500	2,500	2,463	(37)
DISBURSEMENTS				
Protection to Persons and Property	3,000	2,957	2,957	
Administration		43	43	
Total Disbursements	3,000	3,000	3,000	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(500)	(500)	(537)	(37)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			20	20
Total Other Adjustments to Cash (Uses)			20	20
Net Change in Cash and Cash Equivalents	(500)	(500)	(517)	(17)
Cash and Cash Equivalents Balances - Beginning	500	500	532	32
Cash and Cash Equivalents Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 15</u>	<u>\$ 15</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

SOLID WASTE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive Negative
	Original	Final		
RECEIPTS				
Taxes	\$ 75,000	\$ 75,000	\$ 100,604	\$ 25,604
Intergovernmental		55,810	355,844	300,034
Miscellaneous	30,000	30,000	17,736	(12,264)
Interest	50	50	87	37
Total Receipts	105,050	160,860	474,271	313,411
DISBURSEMENTS				
General Health and Sanitation	73,950	240,145	358,592	(118,447)
Debt Service	26,232	26,232	26,231	1
Administration	27,140	27,204	26,496	708
Total Disbursements	127,322	293,581	411,319	(117,738)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
	(22,272)	(132,721)	62,952	195,673
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			19,000	19,000
Total Other Adjustments to Cash (Uses)			19,000	19,000
Net Change in Cash and Cash Equivalents	(22,272)	(132,721)	81,952	214,673
Cash and Cash Equivalents Balances - Beginning	22,272	132,721	173,546	40,825
Cash and Cash Equivalents Balances - Ending	\$ 0	\$ 0	\$ 255,498	\$ 255,498

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

COMMUNITY CENTER SINKING FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Debt Service	\$ 9,075	\$ 9,075	\$ 9,075	\$
Total Disbursements	9,075	9,075	9,075	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(9,075)	(9,075)	(9,075)	
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	9,075	9,075	11,085	2,010
Total Other Adjustments to Cash (Uses)	9,075	9,075	11,085	2,010
Net Change in Cash and Cash Equivalents			2,010	2,010
Cash and Cash Equivalents Balances - Beginning			9	9
Cash and Cash Equivalents Balances - Ending	\$ 0	\$ 0	\$ 2,019	\$ 2,019

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

RIGHT OF WAY USE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$	\$	\$ 9	\$ 9
Total Receipts			9	9
DISBURSEMENTS				
Roads	5,000	5,000		5,000
Total Disbursements	5,000	5,000		5,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(5,000)	(5,000)	9	5,009
Net Change in Cash and Cash Equivalents	(5,000)	(5,000)	9	5,009
Cash and Cash Equivalents Balances - Beginning	5,000	5,000	17,821	12,821
Cash and Cash Equivalents Balances - Ending	\$ 0	\$ 0	\$ 17,830	\$ 17,830

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

ESCROW FOR CLEAR RIVER FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Administration	\$ 250,000	\$ 250,000	\$	\$ 250,000
Total Disbursements	250,000	250,000		250,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(250,000)	(250,000)		250,000
Net Change in Cash and Cash Equivalents	(250,000)	(250,000)		250,000
Cash and Cash Equivalents Balances - Beginning	250,000	250,000	250,000	
Cash and Cash Equivalents Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 250,000</u>	<u>\$ 250,000</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

911 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 215,480	\$ 215,480	\$ 233,354	\$ 17,874
Intergovernmental	28,000	28,000		(28,000)
Miscellaneous			60	60
Interest	50	50	9	(41)
Total Receipts	243,530	243,530	233,423	(10,107)
DISBURSEMENTS				
Protection to Persons and Property	193,727	205,006	242,057	(37,051)
Administration	77,707	75,328	75,328	
Total Disbursements	271,434	280,334	317,385	(37,051)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(27,904)	(36,804)	(83,962)	(47,158)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	27,904	27,904	73,871	45,967
Total Other Adjustments to Cash (Uses)	27,904	27,904	73,871	45,967
Net Change in Cash and Cash Equivalents		(8,900)	(10,091)	(1,191)
Cash and Cash Equivalents Balances - Beginning		8,900	8,900	
Cash and Cash Equivalents Balances - Ending	\$ 0	\$ 0	\$ (1,191)	\$ (1,191)

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

RESERVE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Debt Service	\$ 221	\$ 221	\$	\$ 221
Total Disbursements	221	221		221
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(221)	(221)		221
Net Change in Cash and Cash Equivalents	(221)	(221)		221
Cash and Cash Equivalents Balances - Beginning	221	221	222	1
Cash and Cash Equivalents Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 222</u>	<u>\$ 222</u>

MAGOFFIN COUNTY
NOTES TO SUPPLEMENTARY INFORMATION

June 30, 2013

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Excess of Disbursements Over Appropriations

Road Fund disbursements exceeded budgeted appropriations by \$531,567.

Local Government Economic Assistance Fund disbursements exceeded budgeted appropriations by \$40,207.

Solid Waste Fund disbursements exceeded budgeted appropriations by \$117,738.

911 Fund disbursements exceeded budgeted appropriations by \$37,051.

MAGOFFIN COUNTY
SUPPLEMENTARY SCHEDULE
Other Information - Regulatory Basis

For The Year Ended June 30, 2013

MAGOFFIN COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2013

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 1,054,003	\$ 50,000	\$	\$ 1,104,003
Buildings and Building Improvements	12,573,147			12,573,147
Vehicles and Equipment	1,219,088	266,003		1,485,091
Infrastructure	2,869,694	516,780		3,386,474
 Total Capital Assets	 <u>\$ 17,715,932</u>	 <u>\$ 832,783</u>	 <u>\$ 0</u>	 <u>\$18,548,715</u>

MAGOFFIN COUNTY
NOTES TO OTHER INFORMATION

June 30, 2013

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land and Land Improvements	\$ 5,000	3-25
Buildings and Building Improvements	\$ 5,000	10
Equipment	\$ 5,000	20-50
Vehicles	\$ 5,000	20-40
Infrastructure	\$ 5,000	10-50

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles E. Hardin, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards***

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Cash Balances and Cash Equivalents - Regulatory Basis of the Magoffin County Fiscal Court for the fiscal year ended June 30, 2013, and the related notes to the financial statement and have issued our report thereon dated March 18, 2016. The Magoffin County Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Magoffin County Fiscal Court's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Magoffin County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Magoffin County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2013-008 and 2013-009 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2013-010, 2013-011, 2013-012, and 2013-013 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Magoffin County Clerk's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2013-001, 2013-002, 2013-003, 2013-004, 2013-005, 2013-006, and 2013-007.

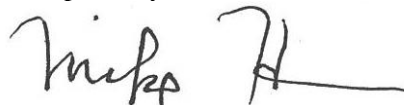
County Judge/Executive's Responses to Findings

The Magoffin County Judge/Executive's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The Magoffin County Judge/Executive's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

March 18, 2016

**MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2013

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2013

STATE LAWS AND REGULATIONS:

2013-001 The County Treasurer Did Not Monitor Disbursements Which Caused Total Budgeted Appropriations To Be Over Spent

The county treasurer did not monitor the disbursements of the Road Fund, LGEA Fund, Solid Waste Fund, and 911 Fund, which caused the total budgeted appropriations for these funds to be overspent. The Road Fund, LGEA Fund, Solid Waste Fund, and 911 Fund disbursements were in excess of budgeted appropriations by \$531,567, \$40,207, \$117,738, and \$37,051, respectively. By not monitoring disbursements, the county is in noncompliance with KRS 68.300. Had the county treasurer performed her duties as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, the overspending would not have occurred. KRS 68.300 states, "Any appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable." In addition, the *County Budget Preparation and State Local Finance Officer Policy Manual* lists the duties of the county treasurer. One of the duties listed requires the county treasurer to countersign checks only when the following three conditions exist: (1) claim is reviewed by the fiscal court, (2) sufficient fund balance, and adequate cash in the bank to cover the check, and (3) adequate free balance in a properly budgeted appropriation account to cover the check. We recommend the county treasurer monitor disbursements and perform her duties as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual* to prevent noncompliance with KRS 68.300.

Official's Response: In March 2012 an F-3 Tornado struck Magoffin County. We operated under emergency declaration for several months. During this time the County was required to financially respond to numerous unanticipated expenses. Federal-State-Regional support along with individual organizations-church generosity helped defray much of this burden. Our budget was now dramatically increased both in the revenue and expense columns. Our contractors, suppliers and workers needed payed quickly and we needed to assure that our citizens continued to receive help to recovery from this disaster. We were confronted with the dilemma of complying with KRS requiring County bills to be paid in 30 days and amending the budget. Amending the budget requires: 1. First reading and approval by Fiscal Court. 2. Approval by the State Local Finance Officer. 3. Notice of second reading published between 7-21 days. 4. Second reading of Amendment. 5. Publish after adoption. The usual time frame is two (2) months. As the lead field auditor pointed out, the County had the money but the budget amendment needed to be passed Magoffin County Judge-Executive Dr. Hardin and I decided to pay the bills, continue services to our citizens and take the audit hit. I and he believe that we did the Right Thing. Kila Keeton, Magoffin County Treasurer & Charles Doc Hardin, M.D. Magoffin County Judge Executive.

Auditor's Response: As stated in your response, the tornado struck Magoffin County in March 2012 (Fiscal Year 2012). Thus, the tornado occurred 4 months prior to the beginning of the Fiscal Year 2013 and 16 months prior to the end of Fiscal Year 2013. Events that took place during Fiscal Year 2012 would have no bearing on the county's failure to comply with KRS 68.300 and KRS 68.280 in Fiscal Year 2013.

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2013
(Continued)

STATE LAWS AND REGULATIONS (CONTINUED):

2013-002 The Fiscal Court Did Not Amend The County's Budget For Unanticipated Receipts

The fiscal court did not amend the budgets for the Road Fund, LGEA Fund, and Solid Waste Fund. By not amending these funds the Fiscal Court overspent the total budgeted appropriations. Overspending total budgeted appropriations is a violation KRS 68.300. This was due to the fiscal court not being fiscally responsible and their disregard of the applicable laws relating to the county's budget. KRS 68.280 states, "The fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of the unanticipated receipts and specifying the budget funds that are to be increased thereby." We recommend the fiscal court follow the provisions of KRS 68.280 to avoid noncompliance with KRS 68.300.

Official's Response: See Response Number 1. I take the responsibility for this audit finding. Judge Hardin.

2013-003 The County Treasurer Did Not Present An Annual Settlement To The Fiscal Court Within The Time Period Required By State Law

The county treasurer did not present an annual settlement to the fiscal court within the time period required by state law. By not presenting the annual settlement on a timely basis, the fiscal court did not have timely financial information that could have influenced decisions regarding the county's financial condition. Had the county treasurer reviewed her duties as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, the annual settlement may have been presented in a timely manner. KRS 68.020(5) requires an annual settlement to be presented to the fiscal court within 30 days after the close of the fiscal year. The annual settlement was presented to the fiscal court on August 20, 2013. We recommend the county treasurer present an annual settlement to the fiscal court within 30 days after the close of the fiscal year as required by KRS 68.020(5).

Official's Response: Recommendation accepted.

2013-004 The County Treasurer Did Not Monitor Fund Cash Balances Which Caused The 911 Fund To Have A Negative Balance

The county treasurer did not monitor fund cash balances which caused the 911 Fund to have a negative balance at the end of the fiscal year. By not monitoring the cash balance of the 911 Fund, the county is in noncompliance with KRS 68.020 and KRS 68.300. Had the county treasurer performed her duties as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, the negative balance in the 911 Fund would not have occurred. One of the duties listed requires the county treasurer to countersign checks only when the following three conditions exist: (1) claim is reviewed by the fiscal court, (2) sufficient fund balance, and adequate cash in the bank to cover the check, and (3) adequate free balance in a properly budgeted appropriation account to cover the check. KRS 68.300 states, "Any appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable." We recommend the county treasurer monitor the cash balance in each fund and perform her duties as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual* to prevent noncompliance with KRS 68.020 and KRS 68.300.

Official's Response: This was due to the timing of a deposit. I will prevent this in the future.

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2013
(Continued)

STATE LAWS AND REGULATIONS (CONTINUED):

2013-005 The County Did Not Maintain Capital Asset Schedules In Accordance With Regulatory Requirements

The county did not maintain a complete and accurate capital asset schedule for fiscal year ending June 30, 2013. The Department for Local Government requires counties to track capital assets (i.e. land, buildings, equipment, vehicles, infrastructure, etc.) and maintain a listing of capital assets to be provided to auditors for inclusion in the audit report. This list should include all current year additions/purchases, retirements, disposals/sale of assets, etc. Any related documentation for capital asset additions, retirements, and disposals in the form of invoices, deeds, purchase orders, sales records, titles, liens, etc. should be maintained in a manner that facilitates easy access, retrieval, and verification of capital asset amounts recorded. We recommend the county implement procedures to identify and track capital asset additions, retirements, and disposals in order for capital asset schedules to be complete and accurate. Additionally, we recommend the county perform physical inventories periodically to further ensure the accuracy and completeness of capital asset schedules.

Official's Response: Since this requirement is no longer in place, we will update our thresh hold amount on inventory.

Auditor's Response: Accurate inventory schedule requirements have not changed. Please see Department for Local Government's County Budget Preparation and State Local Finance Officer Policy Manual.

2013-006 The County's Administrative Code Does Not Address Commuting Mileage Or The Personal Use Of A County Vehicle

The county judge/executive's personal use and commuting mileage of a county vehicle are not being reported as compensation or employee benefit on form W-2 wage and tax statement. The maintenance and fuel costs associated with the personal use of a county vehicle significantly increase costs to taxpayers. The county's administrative code does not address the use of a county vehicle for personal use or commuting travel. Therefore, we were unable to determine if the county judge/executive was authorized to use a county vehicle for any reason other than business related to the county. Personal use of public resources is permitted if the entity has approved such use; however, personal use should be reported as compensation on employees' form W-2 wage and tax statements. Internal Revenue Code Section 61(a) states that the commuting value of a vehicle owned or leased by a public entity represents taxable income to the employee.

We recommend the fiscal court establish controls over county vehicles by implementing the following:

- Personal use and commuting mileage for county vehicles should be properly reported as compensation/employee benefit on W-2 wage and tax statements in accordance with IRS regulations. Several methods can be used to determine the vehicle use that is taxable income to the employees, including the cents-per-mile rule, the lease value rule, and the commuting rule.
- Every employee and every department that has county vehicles should maintain vehicle logs. The logs should include, at a minimum, the date, destination, purpose, and mileage for all use of the vehicle.

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2013
(Continued)

STATE LAWS AND REGULATIONS (CONTINUED):

2013-006 The County's Administrative Code Does Not Address Commuting Mileage Or The Personal Use
 Of A County Vehicle (Continued)

- The fiscal court should amend the current administrative code to include a policy on the authorization and use of county vehicles. In addition, it should address the tax implications of using a county vehicle for personal use or commuting travel.

Official's Response: It is correct that the County Administrative Code does not address the issue of personal use of county vehicles by Officials or Employees. The Chief Executive of Magoffin County Judge-Executive Hardin has authorized essential personnel, who would reasonably be needed in Emergencies to drive their vehicles home at night and on week-ends. This authorization is only for Officials and Employees who would need to be able to respond quickly to an emergency. This authorization Is for Officials and Employees whose timely response to emergencies is critical for the health and safety of Magoffin County Citizens and Magoffin County Property.

It is reasonable to classify the County Judge of Magoffin County as an essential part of the Emergency Response team for several reasons.

- 1. The County Judge is the official who declares a local state of emergency in Magoffin County.*
- 2. The Magoffin County Judge is trained in Emergency Incident Management having completed the 100, 200, 300 and 400 level training courses*
- 3. The County Judge has been designated by Magoffin County and Approved by the Commonwealth of Kentucky Emergency Management Department to Act as Emergency Management Director In the absence of Magoffin County Emergency Management Director.*
- 4. In a Magoffin County Emergency, the Magoffin County Judge Is the Public Information Officer charged with informing the public and media outlets as to the emergency and actions needed to be taken to protect health, safety and lives of Magoffin County Citizens.*
- 5. The Magoffin County Judge Is a Kentucky Licensed Medical Doctor who is an invaluable asset in emergencies that could easily help save lives and protect health.*
- 6. The County Judge makes the ultimate decision on what resources and by whom these resources are to be utilized in an emergency.*

The wisdom of designating the County Judge Executive as essential emergency personnel was well illustrated on March 2, 2012 when a Category F3 Tornado with winds up to 160 miles per hour, tore a 3/4 mile path across parts of Magoffin County and the County Seat of Salyersville. In my role as County Judge Executive-Emergency Responder I left my home and closed down several restaurants and directed people to safe areas. The U.S. Department of Commerce, National Oceanic and Atmospheric Administration, National Weather Service awarded Magoffin County Emergency Director-Deputy Judge Mike Wilson and myself the Community Hero Award and credited us with directly saving at least fifty lives.

Auditor's Response: As stated, we recommend the fiscal court address the use of county vehicles for personal use in the county's administrative code. In addition, we recommend the county seek guidance from the Internal Revenue Service to ensure the county properly reports taxable fringe benefits for personal use of county owned vehicles.

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2013
(Continued)

STATE LAWS AND REGULATIONS (CONTINUED):

2013-007 The Fiscal Court Did Not Prepare A Schedule of Expenditures Of Federal Awards

The fiscal court did not prepare a Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2013 in accordance with OMB Circular A-133. This was caused by the fiscal court not complying with the requirements of OMB Circular A-133. By not preparing a Schedule of Expenditures of Federal Awards, the fiscal court creates the risk of a single audit not being performed, if needed, which could affect the fiscal court's ability to receive federal funding. *OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations, Section 310(B)* requires the county to prepare a Schedule of Expenditures of Federal Awards from the county's financial records. At a minimum, the schedule should include the following, if applicable:

- A listing of individual federal programs by federal agency.
- For federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- Provide total federal awards expended for each individual federal program and the Catalogue of Federal Domestic Assistance (CFDA) number or other identifying number when the CFDA information is not available.
- Includes notes that describe the significant accounting policies used in preparing the schedule.
- To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each federal program.
- Include, in either the schedule or a note to the schedule, the value of the federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year-end. While not required, it is preferable to present this information in the schedule.

We recommend that the fiscal court ensure that a complete and accurate Schedule of Expenditures of Federal Awards is prepared.

Official's Response: As you state, this schedule is not required but preferred it be completed.

Auditor's Response: The Schedule of Expenditures of Federal Awards is required per OMB Circular A-133 as stated clearly in the comment. The last bullet point only mentions that the "non cash assistance" is preferred to be presented as information in the "required" Schedule of Expenditures of Federal Awards.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2013-008 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll

We noted inadequate segregation of duties for payroll. The treasurer is responsible for maintaining timesheets, entering payroll information into the computer system for processing, posting to the payroll ledgers, transferring funds to the revolving payroll account, administering health reimbursement and flex spending programs, preparing pay checks, preparing state and local withholding reports, and reconciling the payroll account. A strong internal control system does not allow one person to perform processing, documentation, and reporting functions. By delegating all these duties to the same individual, it increases the risk of undetected fraud and errors.

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2013
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (CONTINUED):

2013-008 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll (Continued)

In order to strengthen internal controls, we recommend the fiscal court adequately segregate duties related to payroll or implement other controls to compensate for these weaknesses. For example, designate an individual to review the receipts and payroll ledgers, reconciliations, and reports. This individual can document their review by initialing the documents that were reviewed.

Official's Response: As was agreed by two field auditors this is very common in small counties with limited staff and resources. I'm glad in ten audits no Issue of fraud has been Identified. Will review your suggestion of documentation review by Secretary.

2013-009 The Fiscal Court Does Not Have Adequate Controls Over Gravel Inventory

The fiscal court does not have adequate controls over gravel purchased and stored at the county's road department. Our review of the controls over gravel stockpiled at the county's road department revealed the county does maintain a log for gravel transported out to the county roads; however, the log is not kept on a consistent basis. In addition, the log does not track the gravel hauled to the road department from the rock quarry, making it impossible to estimate how much gravel should be in the stockpile. During our procedures relating to disbursements we noted gravel purchases for fiscal years 2012 and 2013 were \$109,800 and \$256,821, respectively. The dollar variance of \$147,021 is a 134% increase from fiscal year 2012. The fiscal court's lack of planned controls has created an opportunity for misappropriation of the county's assets to occur. When controls are not in place to protect the county's resources, there is an increased risk of fraud. We recommend the county maintain a log that tracks the gravel being hauled to the road department and also tracks the gravel hauled from the road department. This would allow an estimate of the gravel on hand and determine if a shortage existed.

Official's Response: Magoffin County Road Dept utilizes a gravel log control sheet to accurately account for delivery of gravel to county roads. Transported gravel is unloaded at the county garage and load tickets are required to be submitted to the foreman for daily processing. Total aggregate delivered to the county garage stockpile is reconciled with load tickets, provided by transport drivers that have signed for aggregate at the quarry. These signed load tickets are then reconciled with the monthly statement provided by the vendor. Upon reconciliation, any issues are promptly addressed to resolution.

Expenditures of gravel purchases for fiscal year 2012 and 2013 were \$109,800 and \$256,821 respectively, this variance is significant due to a few reasons. Collectively, Magoffin County Road System has 938 roads that must be maintained, with this fact in mind gravel purchases account for the highest expense in county road expenditures. Magoffin County suffers from having a multitude of gravel roads. Many conditions exist that will negatively impact this infrastructure system water, vegetation, man-made phenomenon, everyday wear and tear. However, the most severe is the expansion and contraction of road base materials. Although this condition exists throughout the year it is profoundly dominate during inclement weather conditions such as snow and rain. As road base materials freeze and thaw out these roads will require constant maintenance to prevent hazard conditions. Many months of the year will be subject to purchasing aggregate to effectively respond to these pronounced road conditions. In Feb and March 2013 alone, \$98,852.03 of aggregate was purchased to respond to the adverse road conditions of Magoffin County from inclement weather of rain and snow. During the months of Feb and March 2014, \$112,428.91 of aggregate was purchased to stabilize similar road conditions. Also, during the period in question Magoffin County had a tornado disaster declared. During this incident period we also were struck by a flooding event. Several roads and bridges received damages during this time period. Magoffin County's Road Dept. responded to this emergency situation with

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2013
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (CONTINUED):

2013-009 The Fiscal Court Does Not Have Adequate Controls Over Gravel Inventory (Continued)

resources and aggregate. In 2015 alone Magoffin County received 3 federally declared flooding events. This factor could represent an additional variance in aggregate purchased during the fiscal year in question.

Auditor's Response: During our testing, the gravel inventory controls you have described in your response were not in place. We do not question any decision a fiscal court feels is a need for the county, such as road improvements. That is a local governing body decision. What we are concerned with is the lack of controls over the purchase, receipt, storage, and distribution of those assets. Without adequate controls in place over the county's assets, the risks of misappropriation fraud increase. We recommend the controls over the gravel inventory be strengthened.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2013-010 The Fiscal Court Did Not Follow Proper Procedures For Timesheets

During our testing of payroll, we noted several deficiencies related to timesheets. Of the 15 employees tested, we noted three instances in which employees did not sign the timesheet, three instances in which supervisors did not sign timesheets, and two instances in which neither the employee nor the supervisor signed the timesheet. KRS 337.320 requires that every employer keep a record of the hours worked each day and each week by each employee. Additionally, good internal controls dictate that all timesheets be signed by employees and their supervisors to ensure hours are recorded accurately and reflect hours worked. Failure to implement strong internal controls over timesheets could result in inaccurate time reporting and improper compensation. We recommend the fiscal court require all timesheets be signed by employees and supervisors.

Official's Response: This has already been corrected.

2013-011 The Fiscal Court Does Not Have Adequate Controls Over Health Reimbursement Accounts And Flexible Spending Accounts

The fiscal court does not adequately track health reimbursement account and flexible spending account contributions. The amounts contributed to these accounts are not maintained separately from regular county funds and payroll funds and cannot be easily identified in the accounting records. These monies do not belong to the county, and good internal controls require that these monies be maintained and tracked separately in the accounting system. Failure to track these accounts separately increases the risk that the monies could be misappropriated. We recommend the fiscal court implement procedures to track and identify health reimbursement and flexible spending accounts for all employees who participate in these programs.

Official's Response: We will start a new bank account for the flex spending.

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2013
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2013-012 The County Did Not Update Insurance Policies For Capital Asset Changes

During testing of capital assets and insurance coverage, auditors discovered two items that were purchased during the year and were not properly added to the fiscal court's insurance policy. Insurance policies must be updated timely in order for the county to avoid unnecessary costs associated with insurance coverage on assets no longer owned by the county and to ensure that all county assets are properly insured in the event of loss. The county needs to periodically review insurance coverage and compare to the capital asset schedules and assets on hand to make changes and adjustments as necessary so that the proper assets are adequately covered at all times. Accurate capital asset listings are essential to complete and accurate financial reporting. We recommend the county periodically review and compare capital asset schedules and insurance coverage to ensure both are complete, accurate, and updated timely.

Official's Response: This was an oversight. Capital assets are insured within twenty-four hours of purchase.

2013-013 The Fiscal Court Does Not Have Adequate Controls Over Notes Receivable

The fiscal court does not have proper oversight and controls over notes receivable. In August 2008, the fiscal court loaned the Magoffin County Water District \$20,000 for a water project. The water district has not made any payments to date and the entire amount is still outstanding. In September 2011, the fiscal court gave \$50,000 to the City of Salyersville for water projects related to Salyersville Water Works. The fiscal court minutes indicate this was a loan; however, the county judge/executive and the treasurer stated it was not a loan and is not expected to be paid back. Failure to follow up on outstanding notes receivable and establish payment plans deprives the county of needed funds. We recommend management and the fiscal court review the terms of all notes receivable to determine if the county will pursue collection or alternate disposition (i.e. loan forgiveness).

Official's Response: With respect to the \$50,000 given to the City of Salyersville, the fiscal court will review the terms of the loan. The loan to the Magoffin County Water District was forgiven.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

MAGOFFIN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2013**

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

MAGOFFIN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2013

The Magoffin County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in black ink, appearing to be "John H. [unclear]", written over a horizontal line.

County Judge/Executive

A handwritten signature in black ink, appearing to be "Kila [unclear]", written over a horizontal line.

County Treasurer

